Financing Agreement

(Second East-West Highway Improvement Project)

between

GEORGIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated December 20, 2007
CREDIT NUMBER 4373-GE

FINANCING AGREEMENT

AGREEMENT dated December 20, 2007, entered into between GEORGIA ("Recipient") and INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association"). The Recipient and the Association hereby agree as follows:

ARTICLE I - GENERAL CONDITIONS; DEFINITIONS

1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.

1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II - FINANCING

2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to twenty-two million four hundred thousand Special Drawing Rights (SDR 22,400,000) (variously, "Credit" and "Financing") to assist in financing the project described in Schedule 1 to this Agreement ("Project").

2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.

2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.

2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.

2.05. The Payment Dates are February 15 and August 15 in each year.

2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.
2.07. The Payment Currency is Dollars.

ARTICLE III - PROJECT

3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project in accordance with the provisions of Article IV of the General Conditions.

3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV - REMEDIES OF THE ASSOCIATION

4.01. The Additional Event of Suspension consists of the following: that the Recipient shall have failed to notify, and provide adequate information to the Association before entering into a concession agreement for the operation and maintenance of the East-West Highway financed under the Project or the Association shall have raised objections to the Recipient entering into such agreement.

ARTICLE V - EFFECTIVENESS; TERMINATION

5.01. The Additional Condition of Effectiveness consists of the following: that the RDMED and TRRC have signed an amendment to the existing Project Implementation Support Agreement, satisfactory to the Association, spelling out their respective roles and responsibilities.

5.02 The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

ARTICLE VI - REPRESENTATIVE; ADDRESSES

6.01. The Recipient’s Representative is the Minister of Finance.
6.02. The Recipient’s Address is:

Ministry of Finance
70, Irakli Abashidze Street
0162 Tbilisi
Georgia

Facsimile:
99532292079

6.03. The Association’s Address is:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable: INDEVAS
Telex: 248423 (MCI)
Facsimile: 1-202-477-6391
Washington, D.C.
AGREED at Tbilisi, Georgia, as of the day and year first above written.

GEORGIA

By /s/ Nika Gilauri
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Tamara Sulukhia
Authorized Representative
SCHEDULE 1

Project Description

The objectives of the Project are to: (a) contribute to the gradual reduction of road transport costs and improve ease of transit and safety along the central part of Georgia’s East-West corridor, through upgrading a segment of the East-West Highway from Tbilisi to Rikoti; and (b) strengthen the capacity of government agencies, especially the RDMED, to develop and implement a traffic safety program.

The Project consists of the following parts:

Component 1: Upgrade of the E60 Highway

Upgrade of the Igoeti to Sveneti section of the E60 highway from two lanes to four lanes as well as the design of another section, through the financing of works and consultants’ services.

Component 2: Road Safety

Strengthening the institutional capacity of the Government agencies, especially the RDMED, to develop and implement a traffic safety program along the E60 corridor and other roads, through provision of goods, consultants’ services, works and training.

Component 3: Project Management, Monitoring and Evaluation

Institutional support to the RDMED and the TRRC related to Project implementation, audits and Project monitoring and evaluation.
SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The RDMED shall be responsible for the overall coordination, oversight and strategic and policy direction of the Project. Pursuant to the terms and conditions of the Project Implementation Support Agreement, the RDMED shall be assisted in Project-related financial management, procurement, disbursement, and monitoring and evaluation by the TRRC.

2. The MoF and MoED shall be responsible for decisions and actions concerning withdrawal applications and the allocation and reallocation of funds under the Project.

3. The Recipient shall maintain the TRRC with terms of reference, resources and staff necessary for proper Project implementation and satisfactory to the Association.

B. Anti-Corruption

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

C. Safeguards

The Recipient shall ensure that the Project is carried out in accordance with the provision of the EMP and the RPF. The Recipient shall not assign, amend, abrogate or waive the EMP or the RPF without the prior approval of the Association.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the indicators agreed with the Association. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Association not later than forty-five (45) days after the end of the period covered by such report.
B. Financial Management, Financial Reports and Audits

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.

2. Without limitation on the provisions of Part A of this Section, the Recipient shall prepare and furnish to the Association not later than forty-five (45) days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.

3. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 4.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than six months after the end of such period.

4. By or before March 31, 2008, the TRRC shall appoint an independent auditor under terms of reference acceptable to the Association

Section III. Procurement

A. General

1. Goods and Works. All goods and works required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.

2. Consultants’ Services. All consultants’ services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Section.

3. Definitions. The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Works

1. International Competitive Bidding. Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding.
2. **Other Methods of Procurement of Goods and Works.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used:

<table>
<thead>
<tr>
<th>Procurement Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) National Competitive Bidding</td>
</tr>
<tr>
<td>(b) Shopping</td>
</tr>
<tr>
<td>(c) Direct Contracting</td>
</tr>
</tbody>
</table>

C. **Particular Methods of Procurement of Consultants’ Services**

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants’ services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.

2. **Other Methods of Procurement of Consultants’ Services.** The following table specifies methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants’ services. The Procurement Plan shall specify the circumstances under which such methods may be used:

<table>
<thead>
<tr>
<th>Procurement Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Selection under a Fixed Budget</td>
</tr>
<tr>
<td>(b) Least Cost Selection</td>
</tr>
<tr>
<td>(c) Selection Based on Consultants’ Qualifications</td>
</tr>
<tr>
<td>(d) Single-source Selection</td>
</tr>
<tr>
<td>(e) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants</td>
</tr>
<tr>
<td>(f) Sole Source Procedures for the Selection of Individual Consultants</td>
</tr>
</tbody>
</table>
D. Review by the Association of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Association’s Prior Review. All other contracts shall be subject to Post Review by the Association.

Section IV. Withdrawal of the Proceeds of the Financing

A. General

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association shall specify by notice to the Recipient (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

2. The following table: (a) takes into account that any land acquisition and resettlement costs under the Project are being fully funded by the Recipient; and (b) specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Financing (“Category”), the allocations of the amounts of the Financing to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Credit Allocated (expressed in SDR)</th>
<th>Percentage of Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goods, works, consultants’ services, Training and Incremental Operating Costs for the Project</td>
<td>22,400,000</td>
<td>70%</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>22,400,000</td>
<td></td>
</tr>
</tbody>
</table>
B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed SDR 4,000,000 equivalent may be made for payments made prior to this date but on or after September 1, 2007, for Eligible Expenditures.

2. The Closing Date is February 29, 2012.
SCHEDULE 3

Repayment Schedule

<table>
<thead>
<tr>
<th>Date Payment Due</th>
<th>Principal Amount of the Credit repayable (expressed as a percentage)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each February 15 and August 15:</td>
<td></td>
</tr>
<tr>
<td>commencing February 15, 2018 to and including August 15, 2027</td>
<td>5%</td>
</tr>
</tbody>
</table>

* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03 (b) of the General Conditions.
APPENDIX

Definitions


2. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.


4. “EMP” means the Environmental Management Plan adopted by the RDMED on September 28, 2007 and referred to in Part C of Section I of Schedule 2 to this Agreement, describing the environmental mitigation, monitoring and institutional measures to be undertaken during the implementation of the Project, and satisfactory to the Association.

5. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006).

6. “Incremental Operating Costs” means reasonable and necessary incremental expenses incurred by the Recipient with respect to Project implementation, management and monitoring, including the costs of staff salaries (excluding salaries of the Recipient’s civil service staff), communication, editing, printing and publication, translation, vehicle operation and maintenance, bank charges, local travel costs and field trip expenses, office rentals, utilities, equipment and supplies.

7. “MoED” means the Ministry of Economic Development of the Recipient, or any successor or successors thereto.

8. “MoF” means the Ministry of Finance of the Recipient, or any successor or successors thereto.

10. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated November 8, 2007 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.

11. “Project Implementation Support Agreement” means the agreement between the RDMED and the TRRC, dated August 23, 2004, to be amended pursuant to Section 5.01 of this Agreement.

12. RDMED” means the Road Department of the Ministry of Economic Development of the Recipient, or any successor or successors thereto.

13. “RPF” means the Resettlement Policy Framework, adopted by the RDMED on October 23, 2006 and referred to in Part C of Section I of Schedule 2 to this Agreement, describing the policies, procedures, plans and actions (including the resettlement action plan), and institutional measures related to land acquisition and other social impacts that may arise during the Project and other phases related to the Project, and satisfactory to the Association.

14. “TRRC” means, for the purposes of the Project, the Eurasia Transport Corridor Investment Center established pursuant to President’s Order No. 161, dated April 21, 2000 or any successor thereto.

15. “Training” means expenditures incurred in connection with Project-related study tours, training courses, seminars, workshops and other training activities, including travel and per diem costs of trainees and trainers.